

Message Text

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SUBJ: CHANGES IN THE GENERAL TURNOVER (OR PRODUCTION) TAX

REF: LIMA 4695

1. SUMMARY - DECREE LAW 21497 TAKES EFFECT ON JULY 1, 1976
AND GENERALLY INCREASES RATES OF TAX AND MAKES OTHER CHANGES IN
THE TAX BASES WHICH PREVIOUSLY EXISTED UNDER DECREE LAW 19620.
END SUMMARY.

2. DECREE LAW 19620 (NOVEMBER 28, 1972) INTRODUCED A GENERAL
TURNOVER TAX SYSTEM IN PERU REPLACING STAMP TAXES. THE TAX
BASES OF D.L. 19620 (AND NOW D.L. 21497) APPLY TO PRODUCTION,
COMMERCE, CONSTRUCTION, AND SERVICES. BOTH DECREE LAWS DEFINE
THE FOLLOWING CONCEPTS; SALE, VALUE OF SALE, MERCHANDISE,
MANUFACTURER, WHOLESALER, ECONOMICALLY- RELATED ENTITIES,
CONSTRUCTION, AND REVENUE. IN REGARD TO PRODUCTION
AND COMMERCE, THE TAX OBLIGATION ARISES AT THE MOMENT OF (A)
SALE OF THE MERCHANDISE BY THE MANUFACTURER, (B) SALE OF THE
MERCHANDISE BY THE WHOLESALER, (C) ENTRANCE OF GOODS INTO PERU,
(D) SALE OF MERCHANDISE BY AN EXPORTER. THE TAXABLE BASE FOR
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PRODUCTION AND COMMERCE IS CONSIDERED TO BE: (A) THE SALE VALUE

OF MERCHANDISE AT THE MANUFACTURER OR WHOLESALE LEVEL, (B) THE C.I.F. CUSTOMS VALUE OF IMPORTED MERCHANDISE, (C) THE F.O.B. VALUE OF SALES OF MERCHANDISE ABROAD. CERTAIN PRODUCTS ARE EXCLUDED FROM THIS TAX OR ARE TAXED AT LESS THAN THE GENERAL RATE.

3. THE SALES OF GOODS AT THE MANUFACTURERS' LEVEL ARE NOW TAXED AT 20 PERCENT. PREVIOUSLY THE RATE WAS 17 PERCENT. HOWEVER, THERE ARE NUMEROUS EXCEPTIONS IN RESPECT TO APPLICABLE RATES: (A) LUXURY GOODS NOTED IN APPENDIX III (D.L. 21497) AS ALCOHOLIC BEVERAGES, LUXURY TEXTILES AND FURS, AUTOMATIC VENDING AND RECREATION MACHINES, LUXURY ACCESSORIES FOR VEHICLES, JEWELS, PERFUME, COSMETICS AND YACHTS (WHICH WERE TAXED AT 27 PERCENT) ARE NOW TAXED AT A 40 PERCENT RATE. (B) A VERY LONG LIST OF SPECIFIC GOODS IS NOW TAXED AT A 5 PERCENT RATE. THE PRODUCTS ARE LISTED IN APPENDIX IV OF D.L. 21497 AND THE GENERAL SUBDIVISIONS ARE FOOD PRODUCTS, EDUCATIONAL AND CULTURAL PRODUCTS, HEALTH AND HYGIENE PRODUCTS, IRON AND STEEL PRODUCTS, NONFERROUS METALS, CHEMICAL PRODUCTS, PAPER, CARTONS AND CONTAINERS, AND OTHER GOODS. PREVIOUSLY THE RATE OF TAX WAS ALSO 5 PERCENT. PREVIOUSLY THE PRODUCTS ELIGIBLE FOR THE 5 PERCENT RATE WERE DEFINED BY TUPE OF INDUSTRY ACCORDING TO THE GENERAL INDUSTRIAL LAW. THUS, THE NEW LIST APPEARS TO BE RROADER AND ALSO MORE SPECIFIC. (C) A SECOND SET OF SPECIFIC GOODS STATED IN APPENDIX II D.L. 21497 IS TAXED AT REDUCTIONS FROM THE 20 PERCENT GENERAL RATES AMOUNTING TO 50 PERCENT, 35 PERCENT, AND 20 PERCENT. PREVIOUSLY THE REDUCTION WAS 50 PERCENT ONLY. THE GOODS TO RECEIVE 50 PERCENT REDUCTION ARE CERTAIN SPECIFIED EDUCATIONAL, CONSTRUCTION, AND OTHER GOODS. AUTOMOBILES AND MOTORCYCLES RECEIVED A 35 PERCENT REDUCTION; AND KEROSENE, HEATING FUELS, AND DIESEL OIL RECEIVE A 20 PERCENT REDUCTION. THE NEW LAW IS MORE SPECIFIC IN REGARD TO PRODUCTS ENJOYING THESE BENEFITS THAN WAS D.L. 19620 (D) APPENDIX I CONTAINS A STATEMENT OF EXONERATED ITEMS; THEY ARE PRRINCIPALLY AGRICULTURAL PRODUCTS (COTTON, RICE, WHEAT, FORAGE, COFFEE, RAW WOOD, LIVESTOCK, HIDES, EGGS, WOOL, SUGAR, MILK, AND OTHERS) AND CRUDE PETROLEUM. THIS LIST OF AGRICULTURAL PRODUCTS IS SUBSTANTIALLY LONGER THAN THE LIST IN D.L. 19620. PREVIOUSLY, ONLY UNREFINED OIL OF ANIMAL OR VEGETABLE ORIGIN, RICE, COFFEE, AND WHEAT WERE EXONERATED. TAXES ON TOBACCO UNCLASSIFIED

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AND TOBACCO PRODUCTS CONTINUES OUTSIDE THIS SYSTEM AS BEFORE. (E) TAX RATES ON IMPORTS OF PETROLEUM PRODUCTS (AT 7 PERCENT), MINERALS (AT 2 PERCENT) AND OTHER EXPORTS (AT 3 PERCENT) ARE NOT ALTERED BY D.L. 21497. (F) ONE ASPECT THAT HAS CHANGED IS THAT D.L. 21497 ELIMINATES CERTAIN DEDUCTIONS RELATED TO PACKING MATERIALS; NOW A RATE OF 5 PERCENT IS CHARGED ON THESE MATERIALS INSTEAD OF PERMITTING A 70 PERCENT DEDUCTION OF THE TAX.

4. THE TAX RATES AND BASES APPLIED TO CONSTRUCTION AND SERVICES BY D.L. 19620 ARE CHANGED ONLY marginally BY D.L. 21497. THE RATE APPLICABLE TO BUILDING FIRMS IS 3 PERCENT OF GROSS INCOME. THE SERVICES SUBJECT TO D.L. 21497 ARE NEARLY IDENTICAL TO THOSE OF D.L. 19620 AND INCLUDE INCOME FROM MOVIE FILM DISTRIBUTION, INTERNATIONAL AIR AND SEA PASSAGES, COMMISSIONS AND INTEREST EARNED BY FINANCIAL INSTITUTIONS, THE PREMIUM, INTEREST AND COMMISSION INCOME OF INSURANCE COMPANIES, AND REVENUES FROM CABLE, TELEX, TELEPHONES, ELECTRIC POWER, BOARD AND LODGING, AND LEASE OF PROPERTY AND CHATTELS. THERE ARE ALMOST NO CHANGES IN TAX RATES OR BASES IN REGARD TO SERVICES.

5. A ONE PERCENT TAX RATE ON WHOLESALERS DISAPPEARS FROM THE TURNOVER TAX SYSTEM. HOWEVER THE OBLIGATION TO FILE REMAINS. THE REGULATING SUPREME DECREE HAS NOT YET BEEN PUBLISHED.

6. COMMENT - THE IMF ESTIMATED REVENUES FROM D.L. 19620 FOR THE CY 1974 AT 16.7 BILLION SOLES. IT IS DIFFICULT TO PREDICT THE IMPACT OF D.L. 21497 IN TERMS OF REVENUES. THE BASIC RATE INCREASED BY 17.6 PERCENT. REVENUES FROM THE SUBSTANTIAL INCREASE IN THE TAX RATES ON LUXURY GOODS ARE PROBABLY OFFSET BY THE GENERAL BROADENING OF PRODUCTS ELIGIBLE FOR THE 5 PERCENT RATE. IF AN OVERALL RATE OF 18 PERCENT IS ASSUMED, THE INCREASED REVENUE YIELD RESULTING FROM D.L. 21497 MIGHT BE AS MUCH AS 2.0 BILLION SOLES IN 1976.

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